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UNCLAS RANGOON 001316

SIPDIS

SENSITIVE

STATE FOR EAP/BCLTV, EB
COMMERCE FOR ITA JEAN KELLY
TREASURY FOR OASIA JEFF NEIL
USPACOM FOR FPA

E.O. 12958: N/A
TAGS: EFIN ECON PGOV BM
SUBJECT: BURMA: PAYING TAXES TO THE DMV

¶1. (SBU) Summary: In a nightmare bureaucratic scenario that unites tax authorities, the department of motor vehicles, and military intelligence, as of October 6th the Burmese government is using a mandatory annual car registration exercise to try and collect desperately needed tax revenue. Tax collection has been a serious problem for GOB coffers as taxpayer evasion, and tax collector corruption, have conspired to keep explicit tax revenues at a minuscule 2-3 percent of GDP (per the government's inflated statistics). This new strategy will collect some short-term funds, and may punish a few scofflaws. However, it comes at a bad time economically for consumers, further complicates an already confusing taxation system, and does little to address the serious problem of corruption among tax collectors. End summary.

¶2. (SBU) A new taxation scheme, focusing on annual motor vehicle registration by car owners, got underway on October
¶6. Those registering must prove that they paid income taxes on the money they used to purchase the car -- no mean feat in a country where paying income taxes often leads to more negative government attention than not paying. If the owner cannot provide this evidence, s/he will be assessed on the spot a tax of 15 percent of the current market value of the car -- as set arbitrarily by Internal Revenue Department (IRD) -- not of the original purchase price. Though 15 percent is much lower than the normal maximum 50 percent income tax rate, in fact the amount of taxes paid will be quite high in kyat terms. Car values have skyrocketed, alongside other "assets," due to a weak kyat and rampant inflation in recent years. Thus, ten years ago if someone had 400,000 kyat in income to buy a car, s/he would have owed, at the highest income tax rate, 200,000 kyat as income tax. The same car now is being valued by the IRD at 10 million kyat -- a 1.5 million kyat, or $1,700 at current exchange rate, tax liability under the new scheme.

¶3. (SBU) This strategy will punish some tax evaders; however, it does little to address other aspects of the revenue collection problem -- particularly corruption. Though 300 military intelligence officials have purportedly been trained to manage this new car tax scheme, these officers will likely be only slightly less crooked than the brazenly venal, and incompetent, Road Transport Administration Department staff that normally oversees car registration and sales tax matters. Anecdotes are rolling in already of payoffs made directly to the adjudicating official in exchange for a clean bill of health. We've also heard several complaints that everyone, even those who can provide the proper paperwork, is being assessed the punitive tax.

¶4. (SBU) The timing of the move is not ideal. The Burmese economy is scraping bottom, the private banking system has collapsed, and there is little formal commerce and nearly zero domestic investment. The government is doing nothing to stimulate economic activity or thoughtfully reform the troubled tax system. Adding a new, large burden on the country's mostly middle class car owners will likely take even more kyat out of circulation as people are forced to tighten their longyis to pay the new taxes.
Martinez